

## **ESCROW AGREEMENT**

This Escrow Agreement is made and entered into this \_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_ (the "Company") and \_\_\_\_\_ (the "Escrow Agent").

### **WITNESSETH:**

**WHEREAS**, a number of States have enacted Non-Participating Manufacturer Statutes ("NPM Statutes") that require Tobacco Product Manufacturers that have not entered into the Master Settlement Agreement to establish Qualified Escrow Funds, and

**WHEREAS**, the Company is a Tobacco Product Manufacturer that has not entered into the Master Settlement Agreement and intends to comply with such NPM Statutes by establishing Qualified Escrow Funds with respect to states where the Company's tobacco products are sold.

**NOW THEREFORE**, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned parties hereto agree as follows:

### **SECTION 1. Appointment of Escrow Agent.**

The Company hereby appoints \_\_\_\_\_ to serve as Escrow Agent under this Escrow Agreement on the terms and conditions set forth herein. The Escrow Agent warrants that it is a federally or state chartered financial institution organized and existing under the laws of the State of \_\_\_\_\_, having assets of at least one billion dollars (\$1,000,000,000), and is not an Affiliate of any Tobacco Product Manufacturer as defined in the NPM Statute. By its execution hereof, the Escrow Agent hereby accepts such appointment and agrees to perform its duties and obligations set forth herein.

## **SECTION 2. Definitions.**

(a) Capitalized terms used in this Escrow Agreement and not otherwise defined herein or in the Beneficiary State's NPM Statutes shall have the meaning given to such terms in the Master Settlement Agreement.

(b) "Account" means an escrow account consisting of segregated sub-accounts for each Beneficiary State maintained by the Escrow Agent as a Qualified Escrow Fund in which the funds required to be placed in a Qualified Escrow Fund are deposited in compliance with this Escrow Agreement.

(c) "Beneficiary State" means a state that is a party to the Master Settlement Agreement for whose benefit funds are being escrowed pursuant to this Escrow Agreement. For purposes of this Escrow Agreement, the initial Beneficiary States are those listed in Attachment "A" hereto which is hereby incorporated herein by reference, and those other States that the Company and the Escrow Agent may hereafter agree to include as Beneficiary States. Escrow Agent is authorized to include other Beneficiary States under this Agreement by written notice from the Company and is further authorized to revise Attachment "A" from time to time to reflect additions as instructed by the Company.

(d) "Master Settlement Agreement" means the settlement agreement (and related documents) entered into on November 23, 1998 by numerous States and major United States Tobacco Product Manufacturers, a copy of which has been provided to the Escrow Agent by the Company.

(e) "NPM Statutes" or "NPM Statute" are the laws enacted in each of the States that are parties to the Master Settlement Agreement and that require a Non-Participating Manufacturer to establish a Qualified Escrow Fund. The Company shall provide a copy of the NPM Statutes for each

Beneficiary State under this Escrow Agreement to the Escrow Agent.

(f) “Qualified Escrow Fund” means an escrow arrangement with a U.S. federal or U.S. state chartered financial institution having no affiliation with any Tobacco Product Manufacturer and having assets of at least one billion dollars (\$1,000,000,000) where such arrangement requires that the financial institution hold the escrowed funds’ principal for the benefit of Releasing Parties and prohibits the Tobacco Product Manufacturer placing the funds into escrow from using, accessing or directing the use of the funds’ principal except as consistent with the applicable NPM Statutes.

### **SECTION 3. The Escrow Fund and Release of Funds Therefrom.**

(a) From time to time the Company shall tender to the Escrow Agent for deposit in the Account the funds which the Company is required to place into a Qualified Escrow Fund pursuant to the NPM Statutes of each Beneficiary State.

(b) All funds received by the Escrow Agent pursuant to the terms of this Escrow Agreement shall be held, invested and disbursed in accordance with the terms and conditions of this Escrow Agreement and the NPM Statutes.

(c) For each Beneficiary State in which the Company’s tobacco products were sold after enactment of that state’s NPM Statute, by April 15 of the year following each year of such enactment, the Company shall deliver to the Escrow Agent for deposit pursuant to this section the following amounts (as such amounts are adjusted for inflation pursuant to Exhibit C of the Master Settlement Agreement) – 1999: \$.0094241 per Unit Sold; 2000: \$.0104712 per Unit Sold; for each of 2001 and 2002: \$.0136125 per Unit Sold; for each of 2003 through 2006: \$.0167539 per Unit Sold; for each of 2007 and each year thereafter: \$.0188482 per Unit Sold. For the year in which the NPM Statute was first enacted, the amount due by April 15 of the

following year shall be based only on those Units Sold on and after the statute's effective date.

(d) Segregated Multi-State Subaccounts:

(i) The Company shall designate to the Escrow Agent the amount to be placed in the Account and each sub-account for each Beneficiary State based on the Units Sold therein in accordance with the applicable Beneficiary State's NPM Statute. All funds shall be held by the Escrow Agent in sub-accounts separate and apart from all other funds and sub-accounts of each Beneficiary State, the Escrow Agent, and the Company. The Escrow Agent shall allocate all funds as designated by the Company and received by the Escrow Agent among the following Beneficiary States, each with its own separate, segregated sub-account and own sub-account number, as follows:

Sub-account number 1 (Name of Beneficiary State)  
Sub-account number 2 (Name of Beneficiary State)  
Sub-account number 3 (Name of Beneficiary State)  
Sub-account number 4 (Name of Beneficiary State)  
Sub-account number 5 (Name of Beneficiary State)  
Sub-account number 6 (Name of Beneficiary State)  
Sub-account number 7 (Name of Beneficiary State)  
Sub-account number 8 (Name of Beneficiary State)  
Sub-account number 9 (Name of Beneficiary State)  
Sub-account number 10 (Name of Beneficiary State)

(ii) The Escrow Agent shall place and hold such funds in such sub-account for the benefit of the applicable Beneficiary State or any Releasing Party located or residing in the applicable Beneficiary State. The Escrow Agent may further segregate a particular Beneficiary State's sub-account to identify the annual escrow payments for the same Beneficiary State for purposes of release of funds from the same Beneficiary State's sub-account under Section 3(f)(iii).

(iii) Within the Account established under this Escrow Agreement, the Escrow Agent shall maintain a separate sub-account ledger for each Beneficiary State sufficient to enable tracking of the principal amounts allocated to each of the Beneficiary States under this Escrow Agreement and all dates, purposes, and amount of deposits, withdrawals, or interest on each sub-account for each applicable Beneficiary State. The Escrow Agent may also maintain within the Account a separate sub-account for the benefit of the Company to which interest or appreciation on the principal (the “Interest Account”) may be deposited.

(iv) Upon written notice from the Company, the Escrow Agent shall establish additional sub-accounts for additional Beneficiary States which shall be subject to the terms and conditions of this Agreement.

(e) The Company shall receive the interest or other appreciation on the funds deposited pursuant to Section 3 as earned. Whenever any interest or other funds are payable under this Agreement to the Company, such payment shall be subject to the payment of Escrow Agent’s fees, costs and expenses as provided in Section 9.

(f) The funds deposited pursuant to Section 3 shall be released from the applicable Beneficiary State’s sub-account only under the following circumstances:

(i) To pay a judgment or settlement on any Released Claim brought against the Company by the applicable Beneficiary State or by any Releasing Party located or residing in the applicable Beneficiary State. Promptly after receiving a written request for release of funds under this subsection and prior to any such release, the Escrow Agent shall provide written notice to the Company, to the Releasing Party, and to the Attorney General or Attorney General’s Designee of the applicable Beneficiary State as set forth and defined in Section 13 herein. The

notice shall specify in reasonable detail the amount of the funds to be released, the payee and the basis for the requested release (which shall be provided to the Escrow Agent by the person requesting payment). The Company and the Attorney General or Attorney General's Designee of the applicable Beneficiary State as set forth in Section 13 whose sub-account would be reduced by the release of funds shall provide a written response to the Escrow Agent with copies to each other, within thirty (30) calendar days from the date of receipt of this notice. Should the Company or the applicable Beneficiary State timely object in writing to a requested release of funds under this subsection, the Escrow Agent shall not authorize the requested release of funds until such objection has been finally resolved. If no objection is received, the Escrow Agent shall pay the Released Claim after the expiration of the thirty (30) calendar day period. Funds shall be released from escrow from the sub-account of the applicable Beneficiary State under this subsection (A) in the order in which they were placed into the applicable Beneficiary State's sub-account escrow and (B) only to the extent and at the time necessary to make payments required under such judgment or settlement; or

(ii) If it is established, pursuant to subsection 3(g), that the amount required to be placed into escrow in a particular year for a Beneficiary State was, depending on the law of such Beneficiary State, greater than either (A) that State's allocable share of the total payments that the Company would have been required to make in that year had it been a Participating Manufacturer under the Master Settlement Agreement (as determined pursuant to Section IX(i)(2) of the Master Settlement Agreement, and before any of the adjustments or offsets described in Section IX(i)(3) of that Agreement other than the Inflation Adjustment) or (B) the Master Settlement Agreement payments, as determined pursuant to section IX(I) of that

Agreement including after final determination of all adjustments, that the Company would have been required to make on account of such Units Sold in the Beneficiary State had it been a Participating Manufacturer under the MSA (in either case the difference being referred to herein as the “Excess Amount”), such Excess Amount shall be released and revert back to the Company. To the extent established, the Escrow Agent shall pay the Excess Amount to the Company upon the joint written instruction of the Company and the Attorney General or Attorney General’s Designee of the applicable Beneficiary State as set forth in Section 13 or upon entry of a final binding, non-appealable order of a court of competent jurisdiction handling such matter after any appeal or any right of appeal has been exhausted; or

(iii) To the extent not released from escrow under subsections (i), or (ii), funds shall be released from escrow and revert back to the Company twenty-five (25) years after the date on which the applicable annual installments thereof were placed into escrow. The Escrow Agent shall notify in writing the applicable Beneficiary State of the release of such State’s funds at least thirty (30) days prior to the proposed date of such release of funds.

(g) In connection with the release from escrow provided for in subsection 3(f)(ii) of this Escrow Agreement, the Company shall submit in writing to the Attorney General for the applicable Beneficiary State the Company’s calculation establishing the Excess Amount. If the applicable Beneficiary State and the Company cannot agree on the existence of an Excess Amount, or the calculation of the Excess Amount, the dispute shall be resolved in a court of competent jurisdiction located in the applicable Beneficiary State, or if the laws of any Beneficiary State so require, then under the applicable Administrative Procedures Act of that Beneficiary State.

(h) When the Company has made the first deposit into a Qualified Escrow Fund for the benefit of a Beneficiary State, the Escrow Agent shall notify the Attorney General of the applicable Beneficiary State that the Qualified Escrow Fund has been established, and provide to the Beneficiary State a copy of this Escrow Agreement along with all relevant instructions from the Company and the amount of the deposit made for the Beneficiary State. Thereafter, at any time upon the request of the applicable Beneficiary State and in any event on an annual basis by April 30 of each year, the Escrow Agent shall provide written information to each Beneficiary State on the amount of deposits and withdrawals made by the Company for the applicable Beneficiary State's benefit under the Escrow Agreement including the identity of the payor(s) or payee(s), and the date(s), purpose, and dollar amount(s) of any deposits and withdrawals.

(i) All amounts credited to an Account or sub-account, except for interest accrued on the funds which shall be payable to the Company as earned, shall be retained in such Account or sub-account, until disbursed therefrom in accordance with the provisions of this Escrow Agreement pursuant to subsections 3(e), 3(f), or Section 8.

(j) Notwithstanding anything to the contrary contained herein, the Escrow Agent shall not be authorized to make distributions for any particular Released Claims in excess of the principal amount held hereunder for the benefit of the applicable Beneficiary State making the claim (or the Beneficiary State in which the Releasing Party making the claim is located or resides). The Escrow Agent is prohibited from: (i) exercising set-off, recoupment, or any other claim or right against any of the principal funds escrowed pursuant to this Escrow Agreement; or (ii) accessing, or allowing the Company to access, the Account or sub-account of one Beneficiary State to remove or transfer funds to the Account or sub-account of another Beneficiary State



without the written consent of the Company and the Attorneys General of all Beneficiary States involved in the request for transfer of funds; provided however, that nothing contained herein shall prohibit the release or transfer of any funds from the Company's Interest Account to another Account or sub-account upon written direction of the Company.

#### **SECTION 4. Failure of Escrow Agent to Receive Instructions.**

Except as to responses or objections to notice of a request for payment on any Released Claim, which shall be governed by subsection 3(f)(i), in the event that the Escrow Agent fails to receive any written instructions contemplated by this Escrow Agreement, the Escrow Agent shall refrain from taking any action required to be taken under any section of this Escrow Agreement pursuant to written instructions until such written instructions are received by the Escrow Agent. In so refraining, the Escrow Agent shall be fully protected from any liability arising out of its inaction.

#### **SECTION 5. Investment of Funds by the Escrow Agent.**

The Escrow Agent shall invest and reinvest all amounts from time to time credited to the Accounts in (a) the Escrow Agent's U.S. Treasury money market fund; (b) direct obligations of, or obligations the principal and interest on which are unconditionally guaranteed by, the United States of America; (c) repurchase agreements fully collateralized by securities described in clause (b) above; (d) money market accounts maturing within 30 days of the acquisition thereof and issued by a bank or trust company organized under the laws of the United States of America or of any of the 50 states thereof (a "United States Bank") and having combined capital, surplus and undistributed profits in excess of \$500,000,000; or (e) demand deposits with any United States Bank having combined capital, surplus and undistributed profits in excess of \$500,000,000. To

the extent practicable, monies credited to any Account or sub-account shall be invested in such a manner so as to be available for use at the times when monies are expected to be disbursed by the Escrow Agent and charged to such Account or sub-account. In choosing among the investment options described in clauses (a) through (e) above, the Escrow Agent shall comply with any written instructions received from time to time from the Company if mutually agreed upon by Escrow Agent and Company. In the absence of such written instructions or mutual agreement on such instructions, the Escrow Agent shall invest such sums in accordance with clause (a) above.

#### **SECTION 6. Duties and Liabilities of Escrow Agent.**

The Escrow Agent shall have no duty or obligation hereunder other than to take such specific actions as are required of it from time to time by the provisions of this Escrow Agreement and it shall incur no liability hereunder or in connection herewith for anything whatsoever other than any liability resulting from its own gross negligence or willful misconduct or unlawful acts or omissions. The only duties and responsibilities of the Escrow Agent shall be the duties and obligations specifically set forth in this Escrow Agreement. The Escrow Agent has no duty to perform any calculations with respect to the proper amount to be deposited by the Company in any given year or to insure that the Company deposits the proper amount in any given year.

#### **SECTION 7. Indemnification of Escrow Agent.**

The Company shall indemnify, hold harmless and defend the Escrow Agent from and against any and all losses, claims, liabilities, and reasonable expenses, including the reasonable fees of its counsel, specifically including in-house counsel fees, which it may suffer or incur in connection with the performance of its duties and obligations under this Escrow Agreement and

including any action taken under Section 19 hereof, except for those losses, claims, liabilities and expenses resulting solely and directly from its own gross negligence, willful misconduct, or unlawful act or omission. The Escrow Agent may seek the advice of counsel at any time and such reasonable attorney fees shall be in addition to the administrative fees charged by the Escrow Agent for serving as Escrow Agent and the Escrow Agent may charge such costs against the interest which accrues on the Escrow Funds if not otherwise paid by the Company, but the principal in any or all of the Beneficiary States' Accounts and sub-accounts shall not be charged, used as an offset or otherwise encumbered by the Escrow Agent or the Company.

#### **SECTION 8. Resignation or Removal of Escrow Agent.**

The Escrow Agent may resign at any time by giving the Company and all of the Attorneys General of the Beneficiary States covered by this Escrow Agreement ninety (90) days' prior written notice of such intention. The Company may remove the Escrow Agent, as such, by giving the Escrow Agent and all of the Attorneys General of the Beneficiary States covered by this Escrow Agreement ninety (90) days' prior written notice of such removal. Upon the effective date of its resignation or removal, the Escrow Agent will deliver the Escrow Funds held hereunder only to such successor escrow agent directed by the written instructions of the Company. After the effective date of its resignation or removal, the Escrow Agent shall have no duty with respect to the Escrow Funds except to hold such property in safekeeping and to deliver same to its successor or as is directed in writing by the Company. If no successor escrow agent has been appointed by the Company within ninety (90) days from the date such notice of resignation or removal has been given, the Escrow Agent shall be entitled to tender into the registry or custody of any court of competent jurisdiction located in the applicable Beneficiary

State all or part of the escrowed funds held for the benefit of the applicable Beneficiary State by giving written notice of such action to the Company and all of the Attorneys General of the Beneficiary States.

**SECTION 9. Escrow Agent Fees and Expenses.**

The Company shall pay the Escrow Agent its reasonable fees and expenses, including all reasonable expenses, charges, counsel fees, and other disbursements incurred by it or by its attorneys, agents and employees in the performance of its duties and obligations under this Escrow Agreement. Fees, costs and expenses may be paid from interest earned on funds held in or earned on the Account, but the principal in all Beneficiary States' Accounts and sub-accounts shall not be charged, used as an offset or otherwise encumbered by the Escrow Agent or the Company.

**SECTION 10. Intended Beneficiaries; Successors.**

No persons or entities other than the Beneficiary States that have enacted NPM Statutes and Releasing Parties are intended beneficiaries of this Escrow Agreement, and only the Beneficiary States, the Releasing Parties, the Company and the Escrow Agent shall be entitled to enforce the terms of this Escrow Agreement. The provisions of this Escrow Agreement shall be binding upon and inure to the benefit of the undersigned parties hereto and their respective successors.

**SECTION 11. Governing Law.**

This Escrow Agreement shall be construed in accordance with and governed by the laws of the state where the Escrow Agent is incorporated, except that the applicable Beneficiary State's NPM Statutes shall only be construed and applied according to, and governed by, the law of the

applicable Beneficiary State.

**SECTION 12. Jurisdiction and Venue.**

With the exception of any suit, action or proceeding involving a Beneficiary State or any Releasing Party located or residing in a Beneficiary State, any suit, action or proceeding seeking to interpret or enforce any provision of, or based on any right arising out of, this Escrow Agreement shall be brought in a court of original jurisdiction for matters involving contract, equity and damage claims in the State where the Escrow Agent is incorporated.

**SECTION 13. Notices.**

All notices required by this Escrow Agreement shall be in writing and shall be deemed to have been received (a) immediately if sent by facsimile transmission (with a confirming copy sent the same Business Day by registered or certified mail), or by hand delivery (with signed return receipt), or (b) the next Business Day if sent by nationally recognized overnight courier, in any case to the respective addresses as follows:

If to Company:

If to the Escrow Agent:

If to the Beneficiary State(s):

**[Insert names and addresses of Attorneys General Offices of all Beneficiary States here or on Attachment A to the Agreement and incorporate herein by reference]**

If the Company or the Escrow Agent changes its address for notices required by the Escrow Agreement, that entity shall immediately notify the other undersigned party and the

Beneficiary States of that change. Written notice required by this Escrow Agreement shall be deemed sufficient and adequate if sent to the last known address of the Company, Escrow Agent, or the applicable Beneficiary State in the manner provided under this Section.

**SECTION 14. Severability.**

If any provision of this Escrow Agreement shall under any circumstances be deemed invalid or inoperative, this Escrow Agreement shall be construed with the invalid or inoperative provisions deleted and the rights and obligations of the parties shall be construed and enforced accordingly.

**SECTION 15. Amendments.**

This Escrow Agreement may be amended only by written instrument executed by the Company and the Escrow Agent, provided, however, Attachment “A” may be amended to add Beneficiary States and new sub-accounts for such added Beneficiary States by written notice to the Escrow Agent from the Company and the Escrow Agent may amend the list of Beneficiary States by attachment hereto. The waiver by any party of any breach of this Escrow Agreement shall not be deemed to be or construed as a waiver of any other breach, whether prior, subsequent or contemporaneous, of this Escrow Agreement, nor shall such waiver be deemed to be or construed as a waiver by any other party. The Escrow Agent or the Company shall provide a copy of each amendment to the Escrow Agreement within thirty (30) days of its execution to all Beneficiary States.

**SECTION 16. Counterparts.**

This Escrow Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto were upon the same

instrument. Delivery by facsimile of a signed counterpart shall be deemed delivery for purposes of acknowledging acceptance hereof.

**SECTION 17. Captions.**

The captions herein are included for convenience of reference only and shall be ignored in the construction and interpretation hereof.

**SECTION 18. Conditions to Effectiveness.**

This Escrow Agreement shall become effective when signed by the Company and Escrow Agent.

**SECTION 19. Resolution of Disputes.**

In the event of any disagreement resulting in adverse claims or demands being made in connection with the subject matter of this Escrow Agreement, the Escrow Agent may, at its option, refuse to comply with any claims or demands on it, or refuse to take any other action hereunder, so long as such disagreement continues, and in any such event, the Escrow Agent shall not be or become liable in any way or to any person or entity for its failure or refusal to act, and the Escrow Agent shall be entitled to continue to so refrain from acting until (i) the rights of all parties have been fully and finally adjudicated by a court of competent jurisdiction, or (ii) all differences shall have been adjudged and all doubt resolved by agreement among all of the interested persons, and the Escrow Agent shall have been notified thereof in writing signed by all such persons. In addition to the foregoing remedies, the Escrow Agent is hereby authorized in the event of any such disagreement, to petition any state court of competent jurisdiction located in the capitol city of the applicable Beneficiary State, or such other city as may be agreed to in writing by the applicable Beneficiary State, for instructions or to interplead the funds or assets so

held into such Court. The undersigned parties agree to the jurisdiction of either of said Courts over their persons, waive personal service of process, and agree that service of process by certified or registered mail, return receipt requested, to the address set forth in Section 13 shall constitute adequate service. The Company agrees that upon final adjudication on such petition or interpleader action, the Escrow Agent, its servants, agents, directors, employees or officers will be relieved of further liability.

**SECTION 20. Substitute Form W-9: Qualified Settlement Fund.**

The Company shall provide the Escrow Agent with a correct taxpayer identification number on a substitute Form W-9 or if it does not have such a number, a statement evidencing its status as an entity exempt from back-up withholding, within 30 days of the date hereof (and, if it supplies a Form W-9, indicate thereon that it is not subject to be treated as a Qualified Settlement Fund for federal or state tax purposes pursuant to Treas. Reg. § 1.468B-1). The Escrow Agent shall comply with all applicable tax filing, payment and reporting requirements, including, without limitation, those imposed under Treas. Reg. § 1.468B, and if requested to do so shall join in the making of the relation-back election under such regulation.

COMPANY:

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

ESCROW AGENT:

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_